

31 January 2019

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**SPECULATIVE BUY**

unchanged

**PRICE TARGET** A\$1.02↓

from A\$1.11

Price (31-Jan) A\$0.48

Ticker GLL-ASX

52-Week Range (A\$):	0.13 - 0.80
Avg Daily Vol (M) :	2.1
Market Cap (A\$M):	108
Shares Out. (M) :	225.7
Dividend /Shr (A\$):	0.00
Dividend Yield (%) :	0.0
Net Debt (Cash) (A\$M):	(18)
Enterprise Value (A\$M):	90.3
NAV /Shr (A\$):	1.02



Source: FactSet

Priced as of close of business 31 January 2019

Canaccord Genuity (Australia) Limited has received a fee as a Joint Lead Manager and Bookrunner to the Galilee Resources Limited capital raising announced on 5 December 2018.

**Lowering Target Price**

**Patience required**

The Glenaras pilot continues to demonstrate higher-than-expected levels of productivity, a clear positive for the long-term potential of the project but a frustration for those seeking a maiden reserve booking in the MarQ'19.

We revise our price target to A\$1.02ps after allowing for the recent \$13mn capital raising. We have not changed our risking or valuation of Glenaras.

**More wells required to adequately de-water**

The Glenaras pilot was originally designed as a three-well program, but post drilling difficulties at Glenaras 11L and given funding constraints, this was reduced to two wells.

While the company obviously thought two wells were adequate at the time the coal, particularly at Glenaras 12, has proved to be far more productive than expected and the pilot is having to de-water a far larger area in order to achieve critical desorption pressure.

As a consequence the company has indicated that additional wells are likely required in order to adequately draw down the pressure. A drilling program to achieve these objectives, which is targeted to commence in the JunQ, is currently being finalised and will be communicated to the market within the next few weeks.

With a cash balance at \$18.3mn and horizontal wells costing in the order \$2.0mn, the company is adequately funded for this program plus additional drilling works.

**The likelihood of sandstone water contribution is very low, in our view**

GLL has 14 vertical wells which are proximal to the horizontal pilot. These wells provide significant comfort that, unlike the AGL pilots, the Glenaras pilot has isolated the coal seam. We make the following observations:

1. None of these wells encountered evidence of faulting;
2. All of these wells observed shale barriers above and below the R3 coal seam;
3. The sands near the R3 coal seam are of poorer quality and unlikely to flow at meaningful water rates
4. An observer was present on the shakers during drilling and did not observe any sandstone in cuttings
5. The steering tools used during the lateral directional drilling identified the bounding shales above and below the coal
6. The R3 coal seam pressure continues to trend down albeit at a slow rate

Figure 1: Financial summary

FY Jun 30	2016	2017	2018	2019E	2020E		2016	2017	2018	2019E	2020E
<b>PROFIT &amp; LOSS (A\$mn)</b>						<b>PER SHARE DATA</b>					
Oil & Gas Revenue	0	0	0	0	1	Average Shares (Diluted, M)	152.1	152.1	161.5	206.0	211.4
Other Revenue	0	2	0	2	2	EOP Shares (Diluted, mn)	152.1	152.1	189.7	211.4	211.4
<b>Total Revenue</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>2</b>	<b>3</b>	Normalised EPS (A¢/sh)	-4.0	-2.5	-6.4	1.5	2.4
Production Costs	0	0	0	0	0	CF PS (A¢/sh)	-3.7	-2.2	-4.0	0.0	0.0
Royalties & Excise	0	0	0	0	0	FCF PS (A¢/sh)	-4.3	-2.2	-3.9	-6.9	-12.7
Other Operating Costs	0	0	0	0	0	Dividend (A¢/sh)	0.0	0.0	0.0	1.5	2.4
Other Income	0	0	0	0	0	<b>RATIOS</b>					
Corporate & Other Costs	-1	-2	0	-1	-1	Dividend Yield	0%	0%	0%	3%	5%
<b>EBITDAX</b>	<b>-1</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>2</b>	PE	-12.1	-19.1	-7.5	32.9	19.8
Exploration Expensed	-5	-4	-10	-1	-1	PCF (Debt Adj)	-13.1	-21.8	-12.1	-79.9	-660.2
<b>EBITDA</b>	<b>-6</b>	<b>-4</b>	<b>-10</b>	<b>0</b>	<b>1</b>	EV / DACF	-11.4	-20.0	-13.4	-75.4	-808.0
DD&A	0	0	0	0	0	Gearing (ND / ND + E)	N/A	N/A	N/A	N/A	96%
<b>EBIT</b>	<b>-6</b>	<b>-4</b>	<b>-10</b>	<b>0</b>	<b>1</b>	Interest Cover	0.0x	0.0x	0.0x	0.0x	0.0x
Financing Income	0	0	0	0	0	ROE (Reported Profit / Av Equity)	-123%	-48%	-284%	288%	492%
Financing Costs	0	0	0	0	0	ROACE	-77%	-29%	-142%	2%	3%
<b>NPBT</b>	<b>-6</b>	<b>-4</b>	<b>-10</b>	<b>0</b>	<b>1</b>	EBITDAX Margin	N/A	N/A	N/A	N/A	N/A
Royalty Related Taxes	0	0	0	3	5	<b>PRODUCTION</b>					
Tax	0	0	0	0	0	Crude (MMbbl)	0.0	0.0	0.0	0.0	0.0
<b>Normalised NPAT</b>	<b>-6</b>	<b>-4</b>	<b>-10</b>	<b>3</b>	<b>5</b>	Condensate (MMbbl)	0.0	0.0	0.0	0.0	0.0
Sig Items, Discon Ops & Mins	0	0	0	0	0	LPG (kt)	0.0	0.0	0.0	0.0	0.0
<b>Reported Profit</b>	<b>-6</b>	<b>-4</b>	<b>-10</b>	<b>3</b>	<b>5</b>	Natural Gas (PJ)	0.0	0.0	0.0	0.0	1.2
Effective income tax rate	0	0%	0%	30%	30%	LNG (Mt)	0.0	0.0	0.0	0.0	0.0
<b>CASHFLOW (A\$mn)</b>						<b>Total (MMboe)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.2</b>
Customer Receipts	0	0	0	0	1	Total Sales	0.0	0.0	0.0	0.0	0.2
Payments to Suppliers	-1	-1	-2	-1	-1	<b>CURRENT RESERVES</b>					
Rehabilitation	0	0	0	0	0	Proved & Probable (MMboe)	0.0	0.0	0.0	0.0	0.0
Net Financing	0	0	0	0	0	% Liquids (2P)	0%	0%	0%	0%	0%
Taxes	0	0	0	0	0	<b>PRODUCTION &amp; RESERVE RATIOS</b>					
Other	-4	-2	-5	0	0	Average Realisation (A\$/boe)	0.0	0.0	0.0	0.0	7.0
<b>Operating Cashflow</b>	<b>-6</b>	<b>-3</b>	<b>-6</b>	<b>-1</b>	<b>0</b>	Opex (A\$/boe)	0.0	0.0	0.0	0.0	0.8
Development	0	0	0	-5	-19	DD&A (A\$/boe)	0.0	0.0	0.0	0.0	0.0
Exploration	0	0	0	-8	-8	Operating CF (debt adj, A\$/boe)	0.0	0.0	0.0	0.0	-0.8
Divestments / Acquisitions	0	0	0	0	0	EV / 2P (A\$/boe)	0.0	0.0	0.0	0.0	0.0
Other	-1	0	0	0	0	RP Ratio (2P)	0.0	0.0	0.0	0.0	0.0
<b>Investing Cashflow</b>	<b>-1</b>	<b>0</b>	<b>0</b>	<b>-13</b>	<b>-27</b>	Organic RRR (2P, 3yr av)	N/A	N/A	N/A	N/A	N/A
Share Issuance / Buyback	0	0	5	19	0	<b>ASSUMPTIONS</b>					
Drawdown / Repayment of Debt	0	0	0	0	23	Brent (US\$/bbl)	44.1	49.6	63.9	70.0	67.1
Dividends (Net of DRP)	0	0	0	-1	-4	WTI (US\$/bbl)	42.3	48.7	58.5	60.0	61.9
Other	0	0	0	0	0	A\$/US\$	0.73	0.75	0.76	0.74	0.72
<b>Financing Cashflow</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>17</b>	<b>19</b>	<b>NET ASSET VALUATION</b>					
Surplus / Defecit	-7	-3	-1	3	-8	<b>Risked</b>					
<b>BALANCE SHEET (A\$mn)</b>						CORE	0.08				
Current Assets	10	6	5	8	0	DEVELOPMENT	0.16				
Non-Current Assets	2	2	1	12	38	RESOURCES	0.78				
<b>Total Assets</b>	<b>11</b>	<b>8</b>	<b>7</b>	<b>21</b>	<b>38</b>	EXPLORATION	0.00				
Current Liabilities	0	0	4	4	4	<b>TOTAL MARKET VALUE</b>	<b>1.02</b>				
Non-Current Liabilities	1	1	2	16	33	PREMIUM/(DISCOUNT)	0.00				
<b>Total Liabilities</b>	<b>1</b>	<b>2</b>	<b>6</b>	<b>20</b>	<b>37</b>	<b>PRICE OBJECTIVE</b>	<b>1.02</b>				
<b>Net Assets</b>	<b>10</b>	<b>6</b>	<b>1</b>	<b>1</b>	<b>1</b>						
Total Cash	9	6	5	8	0						
Total Debt	0	0	0	0	23						
<b>Net Debt</b>	<b>-9</b>	<b>-6</b>	<b>-5</b>	<b>-8</b>	<b>23</b>						

Source: Company Reports, Canaccord Genuity estimates

Figure 2: Valuation build-up

Country	Asset	Equity %	Unrisked mnboe	Risk %	Riskd mnboe	A\$m	Riskd NPV <sub>0</sub> A\$/boe	A\$ps
<i>discounted to 1.7.2019</i>								
Australia			0.0	0%	0.0	0.0	0.0	0.00
<b>Subtotal - Producing Assets</b>			0.0		0.0	0.0	0.0	0.00
<b>Net Debt, Balance sheet adj. &amp; corp. overhead</b>						18.9		0.08
<b>CORE PRODUCTION VALUE</b>			0.0	0%	0.0	18.9	0.0	0.08
Australia	Glenaras Stage 1	100%	8.2	50%	4.1	35.7	8.7	0.16
			8.2	50%	4.1	35.7	8.7	0.16
<b>DEVELOPMENT ASSETS</b>			8.2	50%	4.1	35.7	8.7	0.16
Australia	Glenaras Stage 2	100%	73.6	50%	36.8	175.0	4.8	0.78
			73.6	50%	36.8	175.0	4.8	0.78
<b>RESOURCES</b>			73.6	50%	36.8	175.0	4.8	0.78
2017	0 wells		0.0	0%	0.0	0.0	0.0	0.00
2018	0 wells		0.0	0%	0.0	0.0	0.0	0.00
<b>EXPLORATION</b>			0.0	0%	0.0	0.0	0.0	0.00
CORE			0	0%	0	19	0.0	0.08
DEVELOPMENT			8	50%	4	36	8.7	0.16
RESOURCES			74	50%	37	175	4.8	0.78
EXPLORATION			0	0%	0	0	0.0	0.00
<b>TOTAL RISKED MARKET VALUE</b>			81.7	50%	40.9	229.6	5.6	1.02
Premium / (Discount)								0.00
<b>PRICE OBJECTIVE</b>								1.02

Source: Company Reports, Canaccord Genuity estimates

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Date and time of first dissemination: January 31, 2019, 14:29 ET

Date and time of production: January 31, 2019, 03:17 ET

### Target Price / Valuation Methodology:

Galilee Energy - GLL

1. Our target is primarily DCF based.

### Risks to achieving Target Price / Valuation:

Galilee Energy - GLL

1. Like any oil and gas company GLL is subject to a number of company specific and macro risks. These include, but are not limited to:
2. • **Price risks** – Oil and gas prices can be quite volatile, with no certainty of future trends. Events in the Middle East regularly cause oil price fluctuations, and new technologies such as fracking can change the supply fundamentals, as evidenced in US natural gas and oil price trends in the last few years. Long term Australian gas prices could (dependent on contract structure) also be difficult to forecast, as the relative strengths of the LNG export market and the domestic market will change over time.
3. • **Currency risks** – Exchange rate trends are inherently volatile, which implies that revenues and costs could differ from the assumptions made.
4. • **Operational and environmental risks** - Dealing with explosive and highly flammable products create operational and environmental risks. Having said that, safety is of paramount importance and the record of the industry is generally good.
5. • **Geological risk** – Geological risks exist for all oil and gas companies, which can impact on reserves and productivity.
6. • **Engineering/Technical risk** – The key risks in oil and gas wells relate to the correct placement of wells and the right technical completion techniques. Above ground infrastructure needs to be appropriately sized and configured for optimal extraction.
7. • **Weather risks** – delays in project development or production deferment due to weather events are not uncommon in industry.
8. • **Political / regulatory / fiscal risks** – Australia is considered a relatively stable nation from both a regulatory and fiscal regime standpoint but the recent moves to 1) lock-up gas resources; 2) ban fracking in certain states; and 3) revise tax policy suggests risks cannot be discounted.

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#### Global Stock Ratings (as of 01/31/19)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	560	62.78%	47.50%
Hold	200	22.42%	30.00%
Sell	12	1.35%	25.00%
Speculative Buy	120	13.45%	70.00%
	892*	100.0%	

\*Total includes stocks that are Under Review

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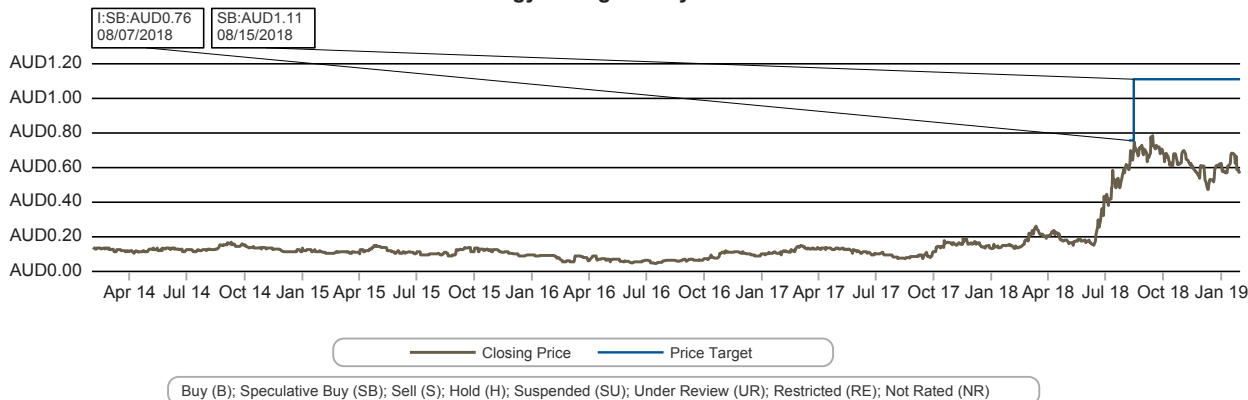
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Galilee Energy Rating History as of 01/30/2019



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